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UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF INSPECTOR GENERAL

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Investigation
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OCT 10 2003

Control Number ED-OIG/A05-D0026

Ms. Goldie H. Burge, Superintendent
Country Gardens Charter School
6313 W. Southern Avenue
Laveen, AZ 85339

Dear Ms. Burge:

This **Final Audit Report** presents the results of our audit of the Country Gardens Charter School's (School) use of U.S. Department of Education (ED) funds for the period October 1, 2001, through September 30, 2002 (project period). The objective of our audit was to determine if the School expended ED funds according to the law and applicable regulations. Our audit disclosed that the School did not have policies and procedures in place to provide reasonable assurance that its accounting records clearly identified how the School used the \$169,700¹ in Public Charter Schools Program (PCSP) funds it received for the project period.

In response to a draft of this report, the School did not concur with the finding. The School concurred that it did not properly record expenses paid with PCSP funds during the project period and informed us that it implemented controls for reconciling its accounting records with expenditures on a regular basis. The School did not comment on our recommendations but the School concurred that it did not properly record expenses paid with PCSP funds. Our review of the School's response caused us to modify our procedural recommendation to reflect that the School informed us that it implemented new accounting policies and procedures. The School's comments are summarized in the body of the report and included in their entirety as an attachment.

AUDIT RESULTS

Finding No. 1 The School Did Not Accurately Account for All PCSP Funds

For the project period, the School was unable to provide us with accounting records that clearly identified expenditures paid with PCSP grant funds. The School's accounting records were not complete and did not classify all of the PCSP expenditures by specific object, classification, or fund codes. When we asked for accounting records showing

¹ See Objective, Scope, and Methodology section.

how the School used all the PCSP funds available for the project period, the School only provided accounting records showing it spent \$122,223 of the \$169,700 available for the project period. When we asked for an explanation, the School provided supplementary information that accounted for the \$47,477 (\$169,700 - \$122,223) in expenditures that were not initially recorded in the accounting records.

According to 34 C.F.R. §§ 75.702 and 75.730(b),² a grantee shall use fiscal control and fund accounting procedures that insure proper disbursement of and accounting for federal funds. The grantee must keep records that, among other things, fully show how it used federal funds and other records to facilitate an effective audit.

During the project period, the School did not have policies and procedures to provide reasonable assurance that the accounting records accurately documented the School's use of PCSP funds. If the School had policies and procedures for reconciling the accounting records with its expenditures on a regular (for example, monthly) basis, the School would have reasonable assurance that its accounting records fully showed how it used PCSP funds.

Recommendations

We recommend that the Chief Financial Officer, Office of the Chief Financial Officer, in conjunction with the Deputy Under Secretary for the Office of Innovation and Improvement, instruct the School to

- 1.1 provide accounting records that accurately account for PCSP expenditures incurred for the project period; and
- 1.2 provide evidence that it has implemented policies and procedures for reconciling its accounting records with expenditures on a regular basis.

Auditee Comments

The School disagreed with the finding. The School agreed that it made coding mistakes in its financial records for the project period, but the Superintendent did not believe that this was a major issue because all of the PCSP funds were spent appropriately. The School informed us that it has taken steps to ensure that its accounting records are accurate, including developing policies and procedures that it implemented during the 2002-2003 school year. These policies and procedures were implemented to ensure that the School increases the accuracy of its record keeping.

² Unless otherwise specified, all regulatory citations are to the July 1, 2001, volume.

OIG Response

We reviewed the School's comments and found no basis for changing the finding. In the School's written response, the Superintendent admitted that the accounting records did not accurately reflect how the School expended PCSP funds for the project period. Because the PCSP expenses were not accurately recorded in the accounting records, the School did not have an adequate audit trail for the PCSP funds.

BACKGROUND

The purpose of the PCSP is to provide grants for the planning, design, and initial implementation of charter schools created by members of the local community. Grants may be made for a period of up to three years. Funds may be used to plan and design the education program of the charter school and evaluate the effects of charter schools.

Charter schools are governed by the charter school legislation enacted in the Elementary and Secondary Education Act of 1965, as amended by the Improving America's Schools Act of 1994, Title X, Part C, Section 10304(f)(3), and the Charter Schools Expansion Act of 1998.³ Charter schools that receive a grant directly from the federal government must also adhere to regulations listed in 34 C.F.R. Parts 75, 82, and 99.

The School received its charter from the Higley Unified School District and opened in September 2000. The School applied for a PCSP grant and received approval from ED on September 29, 2000. The grant provided the School with start up funding for a three-year period. For the project period (October 1, 2001, through September 30, 2002), the second period of funding, the School received \$150,000.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our audit was to determine if the School expended ED funds according to the law and applicable regulations. Our audit covered the award ED made on September 15, 2001, for \$150,000, \$19,700 in PCSP funds the School carried over from the prior period, and costs charged to the PCSP grant for the project period.

To accomplish our objective, we

- interviewed the School's charter holder;
- reviewed accounting records and identified 128 expenditures totaling \$169,758⁴ charged to the PCSP grant for the project period;
- judgmentally selected 8 PCSP expenditures totaling \$22,481. We selected expenditures from 3 account categories (*Equipment, Purchase Services, and Furniture and Equipment Less Than \$300*) and/or those with descriptions that, in our opinion, were inconsistent with the intent of the PCSP law; and

³ The law was amended by the No Child Left Behind Act of 2001, Title V, Part B.

⁴ Though the School was awarded only \$150,000 for the project period, it had carried over \$19,700 from the prior period, making \$169,700 available for the project period.

- compared the School's budget (submitted with an application to ED) with a listing of expenditures made during the project period.

We also relied, in part, on the School's computer-processed data that the School maintained using QuickBooks® software. The School also provided us with computer-processed data from a prior third party vendor that used Visions financial software. We compared the School's data with information from ED's Central Automated Processing System. We also compared the School's supporting documentation, consisting of invoices and canceled checks, with the School's computerized accounting records. Based on our tests, we concluded the data were sufficiently reliable to be used in meeting the audit's objective.

We performed our audit work between December 2002 and March 2003. We visited the School on December 4, 2002, and discussed the results of our audit with School officials on March 25, 2003.

Our audit was performed in accordance with generally accepted government auditing standards appropriate to the scope of audit described above.

STATEMENT ON MANAGEMENT CONTROLS

As part of our audit, we did not assess the adequacy of the School's management control structure applicable to all ED funds because this step was not necessary to achieve our audit objective. Instead, we relied on testing of the School's compliance with the PCSP law and applicable regulations. Our testing disclosed a material weakness in the School's management controls. The School did not have policies and procedures to provide reasonable assurance that the accounting records accurately documented the School's use of PCSP funds. This weakness is discussed in the **AUDIT RESULTS** section of this report.

ADMINISTRATIVE MATTERS

Statements that managerial practices need improvements, as well as other conclusions and recommendations in this report, represent the opinions of the Office of Inspector General. Determinations of corrective action to be taken will be made by the appropriate ED officials.

If you have additional comments or information that you believe may have a bearing on the resolution of this audit, you should send them directly to the following ED officials, who will consider them before taking final Departmental action on this audit.

Jack Martin, Chief Financial Officer
Office of the Chief Financial Officer
U.S. Department of Education
400 Maryland Avenue, SW, Room 4E313
Washington, DC 20202

Nina Shokraii Rees, Deputy Under Secretary
Office of Innovation and Improvement
U.S. Department of Education
400 Maryland Avenue, SW, Room 4W317
Washington, DC 20202

It is ED's policy to expedite the resolution of audits by initiating timely action on the findings and recommendations contained therein. Therefore, receipt of your comments within 30 days would be greatly appreciated.

In accordance with the Freedom of Information Act (5 U.S.C. §552), reports issued by the Office of Inspector General are available to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act.

Sincerely,

A handwritten signature in black ink, appearing to read 'Richard J. Dowd', with a large, stylized flourish extending from the end of the signature.

Richard J. Dowd
Regional Inspector General
for Audit

Attachment

Attachment

1

Goldie H Burge, Superintendent
Country Gardens Charter School
6313 W Southern Ave
Laveen, AZ 85339
602-237-3741

Sept. 8, 2003

Dear Office of Inspector General:

In response to your letter dated August 14, 2003, the following explanations are given to give written disagreement with the findings.

All of our expenses were items approved in my grant. All of these have documented receipts. We understand there were coding mistakes, yet since all items were accounted for we do not feel this is a major issue. I do though understand your position in wanting a clearer record of accounts and have taken steps to achieve this.

We are sponsored by Higley School District and during the first two years of operation, were required by Higley to use ABS Financial Services to handle all of our accounts payable and payroll. ABS kept all our records, cut our checks and completed our budget and reports. I kept track of what was spent on my own as well. ABS was found to be incompetent in many areas of our accounting records, since errors were being found left and right. Higley at the time had over 30 charter schools and they were all complaining of the same problems. After two years of complaints, Higley finally allowed us to use another company or do our accounting or do it in-house. We began using an accountant from a state auditor's office who came in weekly and completed our accounting needs using quick books. She was new and was trying to help us set up a new system. Between ABS miscoding items to the wrong accounts and the new accountant just getting started and making some errors, we ended up with items being missed and not placed in the correct PCSP code. Because I know what was spent and kept track of everything myself, I was able to catch the errors and correct them. This is why your auditors found the problems stated in the finding.

Remember-this is a new school just learning the ropes and we are all bound to make some mistakes. We have done nothing wrong and have spent the grant money appropriately.

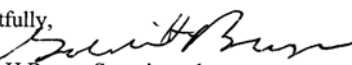
Action Taken:

We have taken steps to increase our accuracy in record keeping by going to a totally in-house accounting system. I have hired a person to work on accounts payable and have sent them to training on Quickbooks. We have put in a system of double checking each month's expenses after they are entered into the system. There are also less people for the paperwork to go through and therefore should cut down on mistakes in coding. In the

future, if I apply for and receive any grants, I will also be setting up a separate account for the grant expenses.

After speaking to Frank Boenzi today, I hope this letter is sufficient to clear up this matter.

Respectfully,



Goldie H Burge, Superintendent
Country Gardens Charter School